

City of Ypsilanti, Michigan

Federal Awards Supplemental Information June 30, 2004

City of Ypsilanti, Michigan

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Independent Auditor's Report

Honorable Mayor and Members of the City Council
City of Ypsilanti, Michigan

We have audited the basic financial statements of the City of Ypsilanti, Michigan for the year ended June 30, 2004 and have issued our report thereon dated October 8, 2004. Those basic financial statements are the responsibility of the management of the City of Ypsilanti, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of Ypsilanti, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 8, 2004

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Report Letter on Compliance with Laws and Regulations and Internal Control - Basic Financial Statements

Honorable Mayor and Members of the City Council
City of Ypsilanti, Michigan

We have audited the financial statements of the City of Ypsilanti, Michigan as of and for the year ended June 30, 2004 and have issued our report thereon dated October 8, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Ypsilanti, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the City of Ypsilanti, Michigan in a separate letter dated October 8, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Ypsilanti, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Ypsilanti, Michigan in a separate letter dated October 8, 2004.

Honorable Mayor and Members of the City Council
City of Ypsilanti, Michigan

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 8, 2004

Report Letter on Compliance with Laws and Regulations and
Internal Control - Major Federal Awards

Honorable Mayor and Members of the City Council
City of Ypsilanti, Michigan

Compliance

We have audited the compliance of the City of Ypsilanti, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The major federal programs of the City of Ypsilanti, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Ypsilanti, Michigan's management. Our responsibility is to express an opinion on the City of Ypsilanti, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Ypsilanti, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Ypsilanti, Michigan's compliance with those requirements.

As described in the accompanying schedule of findings and questioned costs, the City of Ypsilanti, Michigan did not comply with requirements regarding cash management and allowable costs that are applicable to the Community Development Block Grant and Clean Water Capitalization Grants for Drinking Water State Revolving Funds. Compliance with such requirements is necessary, in our opinion, for the City of Ypsilanti, Michigan to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Ypsilanti, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133, which are described in the accompanying schedule of findings and questioned costs as items 04-1, 04-2, 04-4, and 04-5.

Honorable Mayor and Members of the City Council
City of Ypsilanti, Michigan

Internal Control Over Compliance

The management of the City of Ypsilanti, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Ypsilanti, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Ypsilanti, Michigan's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-1, 04-3, and 04-6.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 04-1, 04-3, and 04-6 to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 29, 2004

City of Ypsilanti, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Justice:				
Domestic Violence Grant - Passed through Washtenaw County	16.588	1999-WE-VX-K007	\$ 36,928	\$ 36,928
Local Law Enforcement Block Grant	16.592	N/A	68,142	68,142
Passed through the Michigan Department of Community Health:				
Lawnet Conspiracy Continuation Project	16.579	70771-5K02	36,466	9,568
Lawnet Conspiracy Continuation Project	16.579	70771-603B	37,559	21,927
Byrne Memorial Formula Grant Program	16.579	72028-1K02	38,025	<u>25,009</u>
Total passed through Michigan Department of Community Health				<u>56,504</u>
Total U.S. Department of Justice				161,574
U.S. Bureau of Alcohol, Tobacco and Firearms - Gang Resistance Education and Training	21.053	N/A	4,250	2,246
U.S. Department of Housing and Urban Development:				
Community Development Block Grant (CDBG):				
Passed through Michigan Economic Development Corporation	14.228	MSC 201017- EDIG	3,050,350	1,025,511
Value of CDBG loans outstanding - Prior years' expenditures				<u>1,282,813</u>
Neighborhood Preservation Program	14.228	N/A	560,900	89,103
1999 Home Rehabilitation - Passed through Michigan State Housing and Development Authority	14.234	M-1999-0313	15,000	<u>15,000</u>
Total U.S. Department of Housing and Urban Development				2,412,427
U.S. Department of Transportation - Federal Highway Administration-				
Passed through Michigan Department of Transportation	20.205	STP 0181 (020)	775,700	18,556
	20.205	CMG 0281 (332)	235,000	3,151
	20.205	STP 0381 (008)	407,500	174,750
	20.205	CMG 0381 (033)	15,800	<u>262</u>
Total U.S. Department of Transportation				196,719
U.S. Environmental Protection Agency:				
Brownfield Pilots Cooperative Agreements - Brownfield Supplemental Grant	66.811	N/A	150,000	10,686
Passed through Michigan Department of Environmental Quality - Clean Water Capitalization Grants for Drinking Water State Revolving Funds	66.468	7112-01	785,000	486,907
	66.468	7122-01	5,300,000	2,337,905
	66.468	7123-01	6,330,000	<u>1,537,762</u>
Total passed through Michigan Department of Environmental Quality				<u>4,362,574</u>
Total U.S. Environmental Protection Agency				<u>4,373,260</u>
Total federal awards				<u><u>\$ 7,146,226</u></u>

City of Ypsilanti, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Revenue from federal sources - As reported on financial statements - (Includes all funds)	\$ 464,642
Federal revenue not reported as such in the financial statements:	
Capitalization Grant Proceeds for Drinking Water Revolving Fund *	4,362,574
Community Development Block Grant/Loans Outstanding*	2,308,324
Environmental Protection Agency funding recorded as deferred revenue	<u>10,686</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 7,146,226</u>

* Amount is included as long-term debt in the basic financial statements.

City of Ypsilanti, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Ypsilanti, Michigan (the "City") and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Loans Outstanding

The City had the following loan balances outstanding at June 30, 2004. Where required by OMB Circular A-133, these loan balances outstanding are also included in the federal expenditures presented in the schedule of expenditures of federal awards.

<u>Federal Program</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
Community Development Block Grant	14.228	\$ 2,308,324

Note 3 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 1,400,067
Neighborhood Preservation Program	14.228	89,103

City of Ypsilanti, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2004

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☒ Yes ☐ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
66.468	Capitalization Grants for Drinking Water State Revolving Funds
14.228	Community Development Block Grant
14.228	Neighborhood Preservation Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

City of Ypsilanti, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

Reference Number	Findings
04-1	<p>Program Name - Community Development Block Grant; CFDA Number 14.228</p> <p>Pass-through Entity - Community Development Block Grant passed through Michigan Economic Development Corporation (MI EDC)</p> <p>Finding Type - Material noncompliance; reportable condition; material weakness</p> <p>Criteria - Federal laws require the City to establish effective cash management procedures to ensure that any income earned on federal money is remitted to the granting agency on a quarterly basis.</p> <p>Condition - The City had excess funds and interest earnings related to federal money on hand at the end of last year. The City continued to earn interest on excess funds during the current year. The City failed to remit last year's and current year's interest earnings to the granting agency until requested to do so by the granting agency after the end of the current year. (Repeat finding 03-2)</p> <p>Questioned Costs - None</p> <p>Context - The City does not have an adequate cash management program in place to ensure that interest earnings on federal money is remitted to the granting agency on a quarterly basis.</p> <p>Cause/Effect - Due to an inadequate cash management program, interest earnings on federal money were not remitted to the granting agency on a timely basis.</p> <p>Recommendation - We recommend the City review and amend its cash management program to include procedures to remit income earned on federal money to the granting agency on a quarterly basis.</p>

City of Ypsilanti, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
04-2	<p>Program Name - Community Development Block Grant; CFDA Number 14.228</p> <p>Pass-through Entity - Community Development Block Grant passed through Michigan Economic Development Corporation (MI EDC)</p> <p>Finding Type - Material noncompliance</p> <p>Criteria - Federal laws require the City to submit and adhere to a budget for each approved activity under the grant. The City is able to request budget amendments prior to costs being incurred in excess of budget as long as the additional costs are allowable-type costs.</p> <p>Condition - The City incurred costs well in excess of budget for various categories of the project without requesting budget amendments prior to incurring the costs. The City requested budget amendments along with the submission of a reimbursement request for the excess costs, and approval was subsequently received.</p> <p>Questioned Costs - None</p> <p>Context - The City's adherence to the budget was tested and costs incurred in excess of budget without prior approval were noted.</p> <p>Cause/Effect - The grant administrator risked the City being required to fund the excess expenditures by failing to obtain prior amendments for anticipated cost overruns.</p> <p>Recommendation - We recommend that the City be cognizant of the spending to date on each category of the project and request budget amendments from the granting agency prior to incurring expenditures in excess of amounts budgeted.</p>

City of Ypsilanti, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
04-3	<p>Program Name - Community Development Block Grant; CFDA Number 14.228</p> <p>Pass-through Entity - Community Development Block Grant passed through Michigan Economic Development Corporation (MI EDC)</p> <p>Finding Type - Reportable condition; material weakness</p> <p>Criteria - Federal laws require that the City have an adequate system in place to accumulate and accurately report information to the funding agency.</p> <p>Condition - The City submitted a progress report to MI EDC, but the report was not complete related to the amount of grant funds expended. As a result of our testing, the City has requested to submit a revised progress report with complete and accurate information. (Repeat finding 03-4)</p> <p>Questioned Costs - None</p> <p>Context - The City does not have an adequate system in place to ensure that reports submitted are accurate and are supported by underlying documentation.</p> <p>Cause/Effect - Due to an inadequate system of reporting information, the City submitted an incomplete report and the error was not detected by the City.</p> <p>Recommendation - We recommend that the City develop a system to report complete and accurate information to the granting agency.</p>

City of Ypsilanti, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
04-4	<p>Program Name - Neighborhood Preservation Program Grant; CFDA Number 14.228</p> <p>Finding Type - Material noncompliance</p> <p>Criteria - Federal laws require the City to perform monitoring activities related to awards made to subrecipients that are funded by federal sources.</p> <p>Condition - The City provided a subrecipient with grant funding, but failed to perform monitoring activities to assure that the subrecipient met compliance requirements.</p> <p>Questioned Costs - None</p> <p>Context - The City's subrecipient awards were tested and departures from the requirements were noted. The final reimbursement request was submitted during the current year to close out the grant. The City forwarded the reimbursement request onto the subrecipient without obtaining supporting documentation. During the audit, the City attempted to obtain supporting documentation, but the subrecipient's personnel changed and information could not be located.</p> <p>Cause/Effect - The grant was awarded to the City in 1999 and the entire amount was passed onto a subrecipient. The City does not have procedures in place to perform monitoring activities.</p> <p>Recommendation - We recommend that the City develop procedures to comply with the federal requirement to monitor subrecipient awards for any future grant activity.</p>
04-5	<p>Program Name - Capitalization Grants for Drinking Water State Revolving Funds; CFDA Number 66.468</p> <p>Pass-through Entity - Capitalization Grants for Drinking Water State Revolving Funds passed through Michigan Department of Environmental Quality (MI DEQ)</p>

City of Ypsilanti, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
04-5 (Continued)	<p>Finding Type - Material noncompliance</p> <p>Criteria - Federal laws require the City to establish effective cash management procedures to ensure that drawdown requests are limited to the City's immediate needs.</p> <p>Condition - The City requested reimbursement for retainage amounts on construction contracts that had not yet been paid out. The City earned approximately \$1,000 of interest during the year on the funding received in advance of payment.</p> <p>Questioned Costs - None</p> <p>Context - The City does not have an adequate review process for reimbursement requests to ensure that requests are submitted only for amounts that have been previously paid out by the City.</p> <p>Cause/Effect - Due to inadequate monitoring of the City's cash management system, the City requested reimbursement for more than the City's immediate needs.</p> <p>Recommendation - We recommend the City review and amend its cash management system and discontinue requesting reimbursements in excess of the City's immediate needs. We also recommend that the City contact the granting agency to determine what action, if any, needs to be taken relating to the interest earnings.</p>
04-6	<p>Program Name - Capitalization Grants for Drinking Water State Revolving Funds; CFDA Number 66.468</p> <p>Pass-through Entity - Capitalization Grants for Drinking Water State Revolving Funds passed through Michigan Department of Environmental Quality (MI DEQ)</p>

City of Ypsilanti, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
04-6 (Continued)	<p>Finding Type - Material noncompliance; reportable condition; material weakness</p> <p>Criteria - Grant requirements dictate that an alternative justifiable expenditure (AJE) factor be applied to costs incurred by the City to determine the amount eligible for reimbursement under the grant.</p> <p>Condition - The City did not properly apply the AJE factors for DWRF project #7122-01. The City requested reimbursement for amounts in excess of what was allowed. The City reviewed all expenditures incurred and requested for reimbursement through June 30, 2004 and determined that reimbursements were received in excess of what was allowed by \$141,318. The City has contacted the granting agency to determine how to handle the excess reimbursements. The granting agency has indicated that no interest earnings on the excess reimbursements needs to be considered. The City has also resubmitted to the granting agency all invoices and a revised reimbursement request for cumulative expenditures incurred after applying the proper AJE factors.</p> <p>Questioned Costs - \$141,318</p> <p>Context - A sample of expenditures was tested and noncompliance conditions related to the failure to apply the AJE factors were noted.</p> <p>Cause/Effect - The City was unfamiliar with the AJE factor requirements, which lead to amounts being requested for reimbursement in excess of what was allowed.</p> <p>Recommendation - We recommend the City review the AJE factor requirements and amend its process for calculating reimbursement requests. We also recommend that the City continue to follow up with the granting agency to determine the proper course of action to handle the excess reimbursements received.</p>

City of Ypsilanti, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
04-7	<p>Program Name - Capitalization Grants for Drinking Water State Revolving Funds; CFDA Number 66.468</p> <p>Pass-through Entity - Capitalization Grants for Drinking Water State Revolving Funds passed through Michigan Department of Environmental Quality (MI DEQ)</p> <p>Finding Type - Material noncompliance</p> <p>Criteria - Grant requirements state that budget amendments should be submitted to the granting agency for review and approval prior to costs being requested for reimbursement.</p> <p>Condition - The City incurred costs in excess of budget for various line items and did not submit change orders to the granting agency prior to requesting reimbursement for the excess costs. The granting agency approved the reimbursement requests and indicated that overruns in one category could be covered by underspending in another category as long as the costs were eligible. The granting agency would prefer that change orders be submitted prior to requesting reimbursement.</p> <p>Questioned Costs - None</p> <p>Context - The City's adherence to the budget was tested and costs incurred in excess of budget without prior approval were noted.</p> <p>Cause/Effect - The City was unfamiliar with the requirement to submit budget amendments and change orders to the granting agency prior to requesting reimbursement, thus the City requested reimbursement in excess of amounts originally budgeted without approval.</p> <p>Recommendation - We recommend the City submit change orders and budget amendments to the granting agency as necessary prior to requesting reimbursement for costs.</p>